

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
(317) 232-9855

**FISCAL IMPACT STATEMENT**

**LS 6414**

**BILL NUMBER:** HB 1723

**DATE PREPARED:** Dec 23, 2000

**BILL AMENDED:**

**SUBJECT:** Motor Vehicle Excise Tax.

**FISCAL ANALYST:** Bob Sigalow

**PHONE NUMBER:** 232-9859

**FUNDS AFFECTED:** X **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

STATE IMPACT	FY 2001	FY 2002	FY 2003
State Revenues			
State Expenditures		144,000,000	298,000,000
Net Increase (Decrease)		(144,000,000)	(298,000,000)

LOCAL IMPACT	CY 2001	CY 2002	CY 2003
Local Revenues		5,700,000	10,100,000
Local Expenditures			
Net Increase (Decrease)		5,700,000	10,100,000

**Summary of Legislation:** *Rate Reduction:* This bill reduces Motor Vehicle Excise Tax rates. It reduces rates that exceed \$295 to \$100, rates between \$138 and \$266 to \$50, rates between \$102 and \$138 to \$40, rates between \$51 and \$102 to \$30, rates between \$22 and \$51 to \$20, and rates less than \$22 to \$10. The bill requires the State to replace the Motor Vehicle Excise Tax dollars foregone by local units of government through additional transfers from the State General Fund to the Motor Vehicle Excise Tax Replacement Account.

*Guaranteed Growth:* This bill guarantees each unit 2% growth in Motor Vehicle Excise Tax replacement money each year. It provides for an additional disbursement following the December adjustment to those taxing units that had not realized increased Motor Vehicle Excise Tax revenues of at least 2% from the previous year.

**Effective Date:** January 1, 2002.

**Explanation of State Expenditures:** *Summary: The cost to provide both the Motor Vehicle Excise Tax rate reduction and the 2% growth guarantee is estimated at \$144 M in FY 2002 (6 months), \$298 M in FY 2003, \$318 M in FY 2004, and \$339 M in FY 2005. These funds would be paid from the state General Fund.*

*Rate Reduction:* Beginning in CY 2002, this provision would reduce the tax rates that vehicle owners pay for the Motor Vehicle Excise Tax at the time that they register their cars, motorcycles, and small trucks. The bill makes an appropriation from the State General Fund to fully replace the lost revenue due to this rate reduction. The appropriated amount is \$282.2 M in CY 2002, \$297.9 M in CY 2003, \$315.1 M in CY 2004, \$331.8 M in CY 2005, \$348.3 M in CY 2006, \$365.7 M in CY 2007, and \$383.0 M in CY 2008 and thereafter.

The Bureau of Motor Vehicles would have additional expenses associated with the rate change. Expenditure items would include computer programming changes and printing.

*Guaranteed Growth:* Beginning in CY 2002, this provision guarantees that local units of government would receive at least a 2% increase in Motor Vehicle Excise Tax revenue each year. Overall, since the Excise Tax rates were cut in 1996, local excise tax revenues (including actual Excise Tax paid plus state replacement money from the state General Fund and from Hoosier Lottery proceeds) have been growing at a statewide average rate of 2.4% annually. Individually, some taxing units have experienced growth rates greater than the average and some have experienced smaller growth rates and even losses of Excise Tax revenue.

In CY 1999, Hoosier motorists paid \$362.0 M in Excise Tax while the state transferred \$206.3 M from lottery proceeds and \$33.3 M from the state General Fund to local units in order to replace a portion of the 1996 Excise Tax cuts. Total CY 1999 Excise Tax funding from all sources totaled \$601.6 M.

The Excise Tax revenue receipts for each unit of government were examined to determine each unit's growth rate since the Excise Tax rates were cut in 1996. This analysis assumes that each unit's Excise Tax revenue will continue to grow at the unit's average rate since 1996.

Motor Vehicle Excise Tax revenue is distributed to the school corporation and local governmental units that serve the taxpayer on an apportioned basis based on tax rates. If one unit increases its levy and tax rate faster than other units do, then that unit will get a larger portion of the Excise Tax revenue at the expense of the other units. In this scenario, the state could have to pay more to the "donor units" to guarantee 2% growth. There are also other external forces that may affect excise tax collections, such as population growth, new car sales, inflation rates, and changes to income.

The cost to provide the growth guarantee to school units will be partially reduced because of the effects of the additional local income on the state school funding formula. The school funding formula sets a specific income level for each school corporation. The state school distribution is equal to the total income amount less the local effort amount. The local effort amount includes Motor Vehicle Excise Tax revenue (from all sources) from the preceding year. Since this bill would increase Motor Vehicle Excise Tax revenue for some school corporations' General Funds, the state's school funding share for those school corporations would be reduced by the same amount in the following year.

The net cost to the state for providing a 2% Motor Vehicle Excise Tax revenue growth guarantee to all units of local government is estimated at \$5.7 M in CY 2002, \$10.1 M in CY 2003, \$13.2 M in CY 2004, and

\$17.5 M in CY 2005.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** *Rate Reduction:* This provision would have no effect on local revenues. The state would replace all of the revenue lost due to the rate reduction.

*Guaranteed Growth:* Some local government units and school corporations would receive increased revenues under this provision. The statewide revenue increase is estimated at \$5.7 M in CY 2002, \$10.1 M in CY 2003, \$13.2 M in CY 2004, and \$17.5 M in CY 2005.

**State Agencies Affected:** Bureau of Motor Vehicles; Auditor of State.

**Local Agencies Affected:** County auditors; Local governmental units and school corporations.

**Information Sources:** Annual Motor Vehicle Excise Tax revenue and registration data, Bureau of Motor Vehicles; Local Government Database.